AUDIT AND ASSURANCE COMMITTEE: UPDATE AND PROGRESS REPORT

Introduction

This report provides an update on the development of the Audit and Assurance Committee (AAC) from September 2012 onwards. It identifies the planned changes to the AAC's mode of operation and the reasons for those changes, along with the current position and future progress.

The developments should be understood as functional improvement rather than radical change. The Committee's terms of reference are unchanged. The committee has continued through this period to cover the BAF and wider risk management systems, internal audit (IA), external audit (EA), local counter fraud services (LCFS) and the annual report and accounts. All the reports previously seen by the Committee continue to be seen by it, though waivers and losses and compensation are now reviewed by the Committee twice a year rather than at every meeting.

The main planned changes can be summarised as:

- conformity with the model workplan in the NHS Audit Committee Handbook
- greater clarity in relationship with other committees
- triangulation of evidence from management, other committees and IA in respect of internal control systems.

Model workplan in Audit Committee Handbook

Previous agendas broadly followed the model workplan in the Handbook, except for:

- self-assessment of effectiveness by AAC
- assessment of effectiveness of IA, EA and LCFS
- annual report to Board by AAC on overall delivery of its terms of reference.

The self-assessment has now been completed and the outcome will be included in the report of the committee's January meeting. The review of IA is in hand and will be completed at the March 2014 AAC. The reviews of EA and LCFS will be completed by September 2014. All these reviews will then be scheduled to be undertaken annually thereafter. The annual report of AAC to the Board is scheduled for November 2014.

Clarity in relationship with other committees

The AAC is required to "... review the establishment and maintenance of an effective system of integrated governance, risk management and internal control, across the whole of the organisation's activities..." To avoid duplication with other committees whilst also assuring the Board, the AAC has to be able to place reliance on other committees' work, particularly Finance and Workforce (FWC) and Safety and Quality (SQC). Such reliance should be based on AAC achieving a clear understanding of how those committees themselves gain assurance in their sphere of operation.

The method intended for obtaining this clarity is via an internal controls map identifying the Trust's governance systems and principal sources of evidence in respect of effective internal controls. The Director of Finance has prepared the relevant internal controls map which has been reviewed by

AAC. The Chairs of FWC and SQC are identifying the systems and related controls for which their committees take ownership. These are expected to cover the great majority of the Trust's systems.

In the process clarity will be achieved over where and why the AAC can rely on the work of these committees. Any systems for which no committee takes ownership will also be identified. I am anticipating that any such "gaps" will be identified and available for review by the March AAC.

Triangulation of evidence re internal control systems

A key responsibility for AAC is to assure the Board on the effectiveness of the Trust's internal control systems i.e. that its systems are designed in such a way as to ensure achievement of its objectives and manage risks to the delivery of its plans.

The AAC has been delivering this assurance role in relation to internal controls primarily, though not exclusively, by reviewing IA reports. The extent to which evidence of assurance provided by IA has been triangulated with evidence provided by management and by the work of the committees has been limited. The intended development is to triangulate the evidence of assurance in respect of controls provided by management, the committees, IA and other sources. The means by which this will be achieved is through the internal controls map and schedules developed to enable assessment of the effectiveness of internal controls. The Director of Finance has developed these schedules as an extension to the internal controls map. This "internal controls assessment" is primarily a management tool for reviewing the effectiveness of the Trust's internal control systems and identifying areas where action is necessary to deal with any shortcomings.

The schedules can also be used by AAC (and by FWC and SQC) to assist in delivering its terms of reference. AAC reviewed the internal controls map and related internal controls assessment at its Jan 2014 meeting and agreed that the documents could be used for this purpose. The intention is for AAC to methodically go through the Trust's internal control systems, using the relevant schedules from the internal controls assessment as the starting point. These will provide management's assurance in respect of each system. Confirmation of assurance will also be sought form the relevant committee chair. Evidence from IA and, where appropriate, EA, LCFS or other external agencies will also be sought. Where the assurance provided by all these parties is consistent and appears soundly based, AAC should be able to assure the Board. I am anticipating that use of the internal controls assessment schedules in this way by AAC will commence no later than its May 2014 meeting.

Conclusion

Whilst ensuring substantial continuity, AAC has made a number of changes to enable better delivery of its terms of reference. This includes reviews of its own performance and of IA, EA and LCFS. It is also completing a review of its relationship with FWC and SQC to clarify where and why it can rely on their work without duplicating it. Finally, triangulation of evidence in respect of internal controls through use the internal controls assessment tool will begin no later than March 2014.

Taken together, the continuity of the AAC's previous approach plus the functional improvements identified above, will enable AAC to provide the Board with an authoritative and informative report in November 2014.

Richard Congdon

Non-Executive Director and Chair of AAC

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